

Building the Future for Canadians

Budget 1997

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The Government's Jobs Strategy

February 18, 1997



Canada

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Department of Finance
Canada

Ministère des Finances
Canada



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Introduction

During the past three-and-a half years, the government's overriding economic objective has continued to be job creation and economic growth. The government's jobs and growth strategy has been working to achieve those goals through sound management of the country's finances and key investments in areas such as youth, trade, technology, small business, tourism and infrastructure.

This document outlines some of the major actions the government has taken to stimulate job creation and economic growth through:

- staying the course on restoring Canada's fiscal health;
- investing in immediate jobs and growth; and
- investing in long-term job creation and growth.

While the outlook for job creation is promising, unemployment still remains unacceptably high. Many Canadians continue to be anxious about the job market and their place in it. Many workers worry about losing their jobs and having difficulty finding new ones. Some people have given up looking for work, while still others have been forced to take part-time jobs when they want full-time work. Parents are concerned about what the future may hold for their children.

"I know that for someone without a job, statistics may not be much comfort. But I want them and all Canadians to understand what we are doing to combat unemployment. And how I believe our actions will create a stronger economy and more jobs for all Canadians."

— Prime Minister
Jean Chrétien,
pre-budget speech
February 1997

Canadians do not expect that the government alone can solve Canada's unemployment problem. The government must, however, help create conditions to stimulate job creation in the private sector and ensure that the Canadian economy and Canadians themselves are well equipped to take advantage of the opportunities presented by a rapidly changing economy.

The 1997 budget builds on previous actions by the government to move forward its Jobs Strategy.

Staying the Course on Restoring Canada's Fiscal Health

Creating the economic conditions to support job creation has been a key element of the government's plan for jobs and growth since taking office. This involves reducing the deficit, thereby helping to reduce interest rates and keeping inflation low.

Fiscal Actions

- For the third consecutive year, the government has met and exceeded its deficit reduction targets. The deficit this year is projected to be no higher than \$19 billion. This is more than \$5 billion lower than the government's target and about \$9.5 billion below the previous year – the largest year-over-year decline ever.
- The government is clearly on track to meet its deficit targets for the following two years – 2 per cent of gross domestic product (GDP) for 1997-98 and 1 per cent of GDP for 1998-99.
- By 1998-99, the government will be able to finance its deficit internally without any new borrowing on financial markets for the first time in 28 years.
- The government will meet its objectives, as in the past, by getting spending right, not by raising taxes.

"On taking office, we had to first re-establish confidence in the country's management of its financial affairs. Every one of our deficit targets has been met – in fact, bettered."

– Finance Minister
Paul Martin,
budget speech
February 1997

Getting our Fiscal House in Order

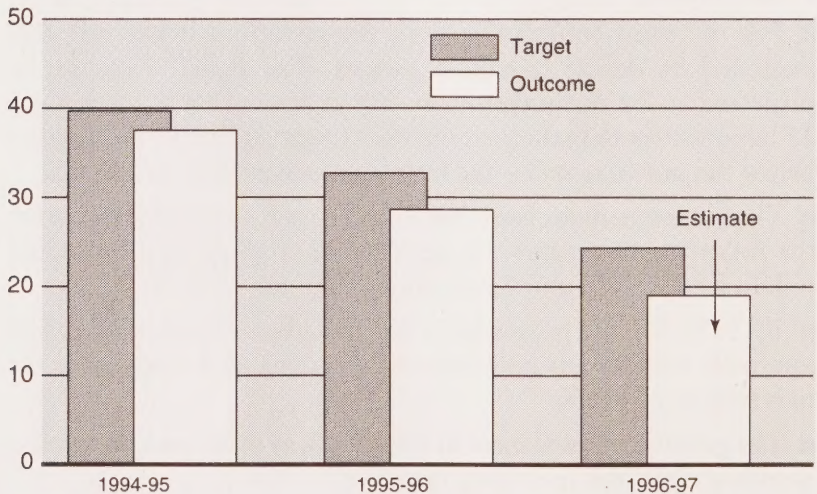
High deficits and debt undermine investor confidence in the ability of the government to meet its financial obligations, leading to higher interest rates which affect all borrowers resulting in reduced consumer spending and business investment, and slower growth and job creation.

Deficit reduction is not an end in itself. Canadians have supported the government's deficit reduction efforts because they know the payoff will be a stronger economy that creates more and better jobs. Deficit reduction is a necessary means to improve the government's capacity to finance important programs and services which Canadians need now and in the future.

The government's deficit reduction actions will ensure that, by 1997-98, the economy will be growing faster than the government's accumulated debt – the most important measure of a country's financial health. The government's goal is to put the debt-to-GDP ratio on a permanent downward track – a goal that is now within reach for the first time in over 20 years.

Deficit targets and outcomes

billions of dollars



Economic indicators ...

The new discipline in the country's financial management – and the new confidence and credibility this has created – have generated positive economic results:

- Short-term interest rates are at their lowest levels in close to 35 years, and have been below comparable U.S. rates for the longest sustained period in two decades.
- Lower mortgage rates compared to May 1995 could put as much as \$2,800 into the pockets of a family with a \$100,000 mortgage amortized over 25 years (based on a one-year term at 5.2 per cent), or reduce a 25-year mortgage by almost 11 years, keeping the same payments (based on a one-year mortgage rate of 5.20 per cent).
- Lower borrowing costs also mean savings for consumers with loans – for example, since May 1995 the savings could be as much as \$500 a year on a \$15,000 loan (based on a rate of 8.75 per cent over four years).
- House resales soared to a record 424,000 units in late 1996, reducing the inventory of unsold houses and boosting housing starts to about 45 per cent above their recent low.
- The inflation rate has averaged under 2 per cent for the past three years, and is at its lowest sustained level in three decades.
- Consumer confidence rose consistently throughout 1996, and spending on consumer goods increased sharply in the fourth quarter of last year.
- Business confidence was at a record high in the fourth quarter of 1996.

... Jobs and growth – now and in the future

Lower interest rates and other positive economic conditions are having an impact on job creation:

- Since October 1993, 715,000 new jobs have been created. Eight out of 10 of those jobs have been full-time.
- Most Canadian private sector forecasters are projecting that employment will increase by over 300,000 jobs by the end of 1997.
- Canada is projected to rank first in employment growth in 1997 among the Group of Seven major industrialized countries.

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Investing in Immediate Jobs and Growth

The economic conditions favourable to healthy private sector job creation are now in place. However, low interest rates have only begun to translate into stronger economic growth and job creation. To help bridge the gap to stronger growth, the government continues to take action to invest now in key sectors of the economy in partnership with the private sector and other levels of government to ensure that jobs are created and economic growth is strong. These investments – with a focus on youth, trade, small business, tourism and infrastructure – not only help create jobs in the near term but have lasting benefits for the economy.

The government is also modernizing the web of rules and regulations that govern the operation of the marketplace to ensure they promote healthy competition, risk-taking and innovation, while protecting consumer interests.

Youth: Creating Hope and Opportunity

The government is helping young Canadians obtain a strong foothold in the labour market by getting that crucial first job. Almost 240,000 young people have stronger job prospects because of work experience opportunities from government-assisted programs in partnership with others. These programs build hope for the future by providing opportunities for young Canadians today.

“Investing in young people is an investment in Canada’s future. The Youth Employment Strategy provides us with the tools we need to help thousands more young Canadians enter today’s complex and demanding labour market.”

– Human Resources Development Minister Pierre Pettigrew on announcing the new Youth Employment Strategy, February 1997

Existing programs and services

- The government launched its Youth Employment Strategy on February 12, 1997. The strategy:
 - improves access to existing programs, services and resources for youth through a new 1-800 information line, a Youth Resource Network Website and a series of Youth Info-fairs;
 - builds on over \$2 billion in new and existing funding to help more young people find their way into the new economy; and
 - includes \$315 million set aside in the 1996 budget for the creation of more than 120,000 summer career placements and over 19,000 internships over two years.
- By March 1997, Youth Internship Canada and Youth Services Canada will have helped more than 50,000 young people to acquire work experience and marketable skills. These programs are being refocused to help youth who face barriers to participating in the job market.
- The SchoolNet program is linking all 16,500 Canadian schools, 400 First Nations' schools and 3,400 public libraries to the Internet by 1998.

International Trade: New Markets, New Jobs

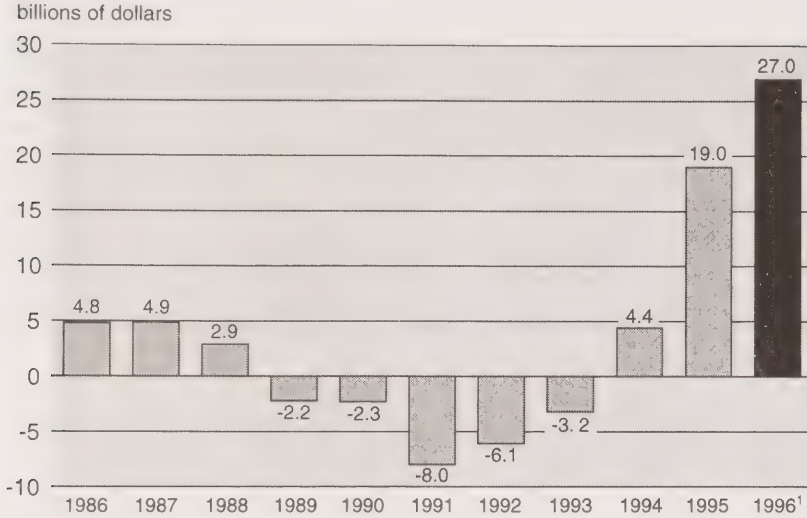
Record exports are driving the Canadian economy. Producing and selling Canadian products and services around the world means more and better jobs for Canadians. Every \$1 billion in new exports is estimated to support up to 11,000 jobs in Canada.

Canada's merchandise trade surplus was over \$31 billion in the first 11 months of 1996 – putting it on course for a record trade surplus. The volume of Canada's exports has soared by 50 per cent since 1992.

The government is working to encourage trade by helping Canadian firms export to new markets and expand their trade in existing ones.

"In an increasingly globalized world, Canadians have demonstrated themselves to be successful traders. So much so, that over 40 per cent of our GDP and one out of every three jobs in Canada is dependent upon trade."

– *International Trade Minister Arthur Eggleton, New York speech, November 1996*

Net exports of goods and services

¹ Average of the first three quarters of 1996 at annual rates.

Existing programs and services

- Team Canada trade missions led by the Prime Minister have brought home some \$22 billion in business deals since 1994.
- Recently signed free trade agreements with Israel and Chile have opened new markets for Canadian exporters.
- Custom tariff reductions for businesses and consumers were estimated to be worth \$600 million in 1996.
- Responding to a strong demand for exports to higher-risk emerging markets, the Export Development Corporation increased its lending capacity in these markets by \$1.5 billion in 1996.
- Federal, provincial and municipal governments are working in partnership to identify and deliver services that will assist companies interested in exporting or expanding beyond their traditional markets.
- Investment Partnerships Canada is working to increase international investment in Canada.

"We want to create a climate where every small business has the opportunity to grow into a medium-sized business and where every medium business has an opportunity to become a large business."

— Industry Minister
John Manley,
presentation to
small business
community,
January 1997

Helping Small Business Create Jobs

Small- and medium-sized businesses with fewer than 50 employees account for approximately 42 per cent of all private sector employment, and have generated between 70 and 80 per cent of the new jobs in Canada over the past three years.

Tourism is a particularly important player in the small business sector. Canada's tourism industry directly employs more than 500,000 people in some 60,000 firms – most of which have fewer than 100 employees. The Canadian Tourism Commission estimates that 125,000 new jobs can be created over the next decade in this industry.

No government actions could be as beneficial to small businesses as the recent dramatic declines in interest rates which will encourage small businesses to invest, grow and create jobs. For example, the drop in interest rates since May 1995 would save a small business \$2,800 a month in financing costs on a 10-year loan of \$1 million.

The government is taking a number of actions and proposed measures to meet the needs of small businesses and strengthen their ability to create jobs. It is providing assistance to help rural Canada adjust to trade liberalization in agricultural products and the decline of many traditional industries.

Existing programs and services

- Improved labour market conditions and employment insurance (EI) reforms have allowed EI premium rates to come down in recent years and will allow them to come down in the future. The reduction in the EI premium rate for 1997 was the third successive decrease in as many years.
- The New Hires Program was expanded to provide further premium relief to almost 900,000 eligible businesses. Those eligible will pay virtually no employer premiums for new employees in 1997, and will receive a 25-per-cent reduction on premiums for new employees in 1998.
- In 1996, the Business Development Bank of Canada made over \$1 billion in loans and loan guarantees to more than 5,600 small businesses.
- Small businesses will also benefit from the one-year \$50 million extension to the Residential Rehabilitation Assistance Program, which supports home renovation for low-income Canadians, allows seniors to adapt their homes, and supports other Canadians in need.

1997 budget actions

- The budget allocates \$45 million in new funds over three years for tourism promotion, and a further \$50 million for the Business Development Bank of Canada to help finance private sector tourism infrastructure.
- The Community Access Program will invest an additional \$30 million over three years to ensure that virtually every community in Canada between 400 and 50,000 in population will be connected to the information highway.
- The Farm Credit Corporation will be given an additional \$50 million in capital to expand its capacity to support growth and diversification in rural Canada.
- The government will be introducing legislation to reduce the paper burden for small businesses by permitting those with perfect records of compliance to file payroll deductions on a quarterly instead of monthly basis – benefiting up to 650,000 small businesses.
- The government will raise the ceiling under the *Small Business Loans Act* from \$12 billion to \$14 billion to assist small businesses in obtaining loans for fixed assets from chartered banks and other lenders. It is also changing the rules to encourage labour-sponsored venture capital funds to invest more actively in small businesses.

Canada Infrastructure Works: A Program That Delivers Jobs

Canada Infrastructure Works was designed to work in partnership with other levels of government and the private sector. With more than 12,000 infrastructure projects already approved and underway, the program has helped modernize old municipal infrastructure, creating thousands of short- and longer-term jobs. Not only has the program had an immediate impact on employment, but the projects will make an ongoing contribution to job creation and economic growth across Canada.

Existing programs and services

- The government committed \$2 billion, which was matched by provinces and municipalities, for a total of \$6 billion worth of investment to renew infrastructure in rural and urban communities in every region of Canada under the program.

- The government has extended the program, adding \$425 million to the \$175 million to be spent in 1997 from the first program – for a total of \$600 million this year. When combined with the financial contributions of provinces and municipalities, the federal offer could create infrastructure investments of about \$1.8 billion to support some 2,500 new projects during the 1997 construction season across Canada.

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Investing in Long-Term Job Creation and Growth

To help Canada create rewarding and well-paying jobs in the 21st century, the government is continuing to invest in education, skills development and technology and innovation.

Assistance for Post-Secondary Education

Today's workers require new and better skills to match the new and better-paying jobs that are being created as a result of innovation and the changing economy.

Existing programs and services

■ The federal government supports medicare, post-secondary education and other valued programs by providing transfers to the provinces. Last year, under the new Canada Health and Social Transfer (CHST), a predictable and assured level of funding was legislated for the five-year period through to 2002-03. A stable transfer of more than \$25 billion annually in cash and tax points is in place until the turn of the century, at which time it will begin growing. Legislation passed last year also guarantees that the cash component of the CHST will never fall below \$11 billion per year. This is a floor, not a ceiling. Indeed, cash transfers to the provinces are projected to begin growing by the year 2000.

"Canadians know that better education equals better jobs. This is true for our young people who are in school. It is also true for those already in the workforce, whose continued employment is increasingly dependent on lifelong learning."

– Finance Minister
Paul Martin,
budget speech
February 1997

■ The 1996 budget provided \$80 million in direct tax assistance for post-education through: an increase in the education tax credit to recognize the non-tuition costs of schooling; an increase in the limits on the transfer of tuition and education credits to support parents or spouses who help underwrite the education of students; and an increase in the contribution and lifetime limits for contributions to registered education savings plans (RESPs) to assist those who are saving for their children's education.

1997 budget actions

- Federal support for post-secondary education will increase by \$137 million in 1998-99 and about \$275 million annually when the changes have matured.
- The education credit will be doubled over the next two years to help students with living expenses.
- The tuition credit will be extended to include new or higher fees other than the cost of tuition.
- Students will be able to carry forward all unused portions of their tuition and education credits, to be offset against future income.
- To help those having difficulty repaying student loans, the government will extend from 18 to 30 months the period of time during which students are allowed to defer making payments. The government will pay the interest that students would have paid over this extended period.
- To help parents who want to save for their children's education, the government will double to \$4,000 the annual contribution limit for RESPs. Individuals will also be able to transfer unused RESP income into their registered retirement savings plans (RRSPs), provided they have unused RRSP room.

Skills Development: Keeping Pace With Change

The vast majority of Canadians who will be in the workforce by the year 2005 have already passed through the education system. Given the rapid pace of technological change, however, many of these workers will need further education and skills development. In many ways, the best way to help them acquire the necessary skills is through on-the-job training.

Existing programs and services

- Employment insurance reform is helping people get back to work as quickly as possible by reinvesting \$800 million in savings in active employment measures.
- The government is working closely with the provinces and territories to reform the design and delivery of labour market programs. Agreements have already been signed with Alberta and New Brunswick while negotiations with the remaining provinces and territories are continuing. Provinces and territories will have access to almost \$2 billion for active employment measures.
- The government has established Sectoral Councils to work with industry sectors and education and training institutions on the changing requirements and industry needs for skilled workers. These councils are a partnership of representatives from government, business and labour groups.

1997 budget action

- Because the chances to find, get and keep jobs are directly related to literacy, the government will increase the budget of the National Literacy Secretariat by 30 per cent from \$23.3 million to \$30.3 million commencing in 1997-98.

This increased support will assist Canadians in their transition to the new knowledge-based economy by building a strong foundation of basic literacy and communications skills. By improving individuals' literacy skills, it will increase their access to learning opportunities. Increased literacy for all Canadians is at the heart of the lifelong learning needed for individuals and organizations to adapt to the changing global economy.

Priority will be placed on fostering literacy in the workplace and in the family. The 1995 International Adult Literacy Survey demonstrated that the strength of individuals' literacy skills at home and on the job is key to full participation in the nation's economic, social and cultural life.

These two priorities complement the government's decision last fall to provide a full rebate of the goods and services tax on books to educational institutions, public libraries, municipalities and qualifying charities and non-profit organizations which promote literacy.

“University researchers across Canada ... are generating new industries – like aquaculture – to replace lost jobs and revive struggling communities. That’s research. The cornerstone of innovation, the building blocks of a competitive economy, the foundation for thousands of jobs for Canadians.”

– Statement by
28 Canadian
research sector
executives,
in co-operation
with the Association
of Universities
and Colleges,
January 1997

Innovation and Technology: Keys to Job Creation

Growth and jobs in the 21st century will depend increasingly on Canada’s capacity to innovate. This is vital not only to emerging new industries, but also to the future growth and competitiveness of many of Canada’s more traditional industries.

New technology enhances competition, delivers new products and services, and gives consumers more product choices and lower prices. Businesses using new technologies have the potential to create new jobs much faster than old jobs disappear. Making technology work for Canadians is a key element of the government’s Jobs Strategy.

Existing programs and services

■ Under Technology Partnerships Canada, the government is investing up to \$250 million annually in research and development (R&D) in key growth sectors of the economy such as aerospace, biotechnology and environmental technologies.

■ The government has allocated \$17 million over the next three years for the Student Connection Program which employs 2,000 students to connect 50,000 businesses to the information highway. Private sector partners are donating some \$20 million in goods and services.

■ The government provides one of the most favourable tax systems for R&D in the world. Income tax assistance for scientific research and experimental development amounts to about \$1.3 billion annually.

■ The Industrial Research Assistance Program (IRAP) provides technical advice to over 10,000 Canadian companies and financial assistance to more than 3,000 companies every year to support research and development projects.

1997 budget actions

■ The Canada Foundation for Innovation will be established to provide financial support for modernizing research infrastructure – facilities and equipment – at Canadian post-secondary educational institutions and research hospitals in the areas of science, engineering, health and environment.

The Foundation will be an independent corporation, at arm's length from government, with its members drawn from the research community and the private sector. They, not the government, will be responsible for spending decisions.

Through an up-front investment by the federal government of \$800 million, the Foundation will be able to provide about \$180 million annually over five years for research infrastructure. Through partnerships between public research institutions and a wide range of contributors – the private sector, the voluntary sector, individual Canadians and, to the extent they wish to participate, provincial governments – the Foundation is expected to trigger roughly \$2 billion in support for research infrastructure.

■ The government is renewing its commitment to the Networks of Centres of Excellence which link researchers across Canada and IRAP which helps small businesses increase their innovative capabilities.

5

Building the Future for Canadians

The government's first task upon taking office was to re-establish confidence in the country's management of its financial affairs. The government is staying the course and is well down the road to accomplishing this goal. The deficit is coming down. Investors have renewed confidence in Canada's financial management, as reflected in the recent dramatic decline in interest rates.

At the same time, the government continues to take action in areas that have an immediate impact on jobs and growth – in youth employment, trade, technology, small business, tourism and infrastructure. These are investments that will create jobs for Canadians today and have lasting benefits for the economy.

To strengthen the foundation for jobs and economic growth into the 21st century, the government is investing in education, skills development and the knowledge infrastructure Canada must have as it prepares for the 21st century. This includes the creation of the Canada Foundation for Innovation to help renew facilities and equipment – research infrastructure – at Canadian post-secondary institutions and research hospitals.

"... we shall continue meeting the real needs of real people. Governing in a way that benefits all the regions and all parts of Canada ... working out accommodations, respecting the diversity of Canadians, looking after her most vulnerable, and always, always building for the future."

– Prime Minister
Jean Chrétien,
pre-budget speech
February 1997

Finally, if the strategy for jobs and growth is to succeed, Canada must have a strong society. A strong economy requires a strong society. That is why the government is investing in health, in the future of Canada's children, and in providing more assistance to Canadians with disabilities and greater incentives for charitable donations, as well as taking action to ensure a sustainable retirement income system. These initiatives are described in more detail in other budget documents.

Together these actions will build the future for Canadians by encouraging job creation and economic growth in a stronger society.

